

China should Reduce its Holdings of US Treasuries, Diversify its Reserves, “There are Alternatives to Investing in the US Dollar”, Chinese Economist

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The US political crises and its Debt limit problem is a warning sign for China over its \$1+Trillion it holds in US treasuries. Although the crisis is temporarily resolved until January, uncertainties will still remain. Before a deal was reached on Wednesday, Chinadaily.com reported that

“Even if the debt impasse is eventually solved before Thursday’s deadline, the political brinkmanship unfolding on the world stage, and the tremendous uncertainty around it, reminded Chinese economists and media of the risk of excessive exposure to US Treasury bills.”

Li Daokui, an economist at Tsinghua University said that *“many argue that China has few alternatives to investing in US debt, but I don’t think this is true.”* China is reported to have over \$3.6 Trillion in foreign exchange reserves mostly in US treasury bonds. He said that there are alternatives to US treasuries. He stated the following three alternatives:

✘ *A possible alternative, according to Li, is to sell half of the current holdings and reorient them to three kinds of financial assets. The first is the stocks of multinationals that have invested in the Chinese market. That is the equivalent of investing in its own economy. The second choice is other economies’ sovereign debts that have a rating higher than AA+. The third choice is utility corporations in mature economies.*

China’s purchases of US debt are supposed to keep US-China relations stable according to Daokui

“The only explanation why China continues to hold such a gigantic share of US debt, according to Li, is out of broader concern for US-China relations” he continued *“But no one can guarantee that the government can resist the domestic pressure, especially from those economists who have called for diversified investment and smaller US Treasuries buying.”*

Xinhua News Agency stated the following on the US government’s political crises and why a new reserve currency is crucial to the world economy:

The developing and emerging market economies need to have more say in major international financial institutions including the World Bank and the International Monetary Fund, so that they could better reflect the transformations of the global economic and political landscape.

What may also be included as a key part of an effective reform is the introduction of a new international reserve currency that is to be created to replace the dominant U.S. dollar, so that the international community could permanently stay away from the spillover of the intensifying domestic political turmoil in the United States.

The online Australian based Business Spectator reported that Liao Qun, a Hong Kong-based economist for Citic Bank International said *“If there really is a default, the Chinese government will definitely speed up foreign exchange reserve diversification, seeking safer bonds of other countries,”* he also said that *“If there is an acceleration in diversifying, there might also be a reduction in holdings (of US Treasuries)”*.

Although reducing its holdings would devalue its US treasuries, China would have to make a difficult decision that would affect their economy because they would have no other choices unless they want to go along with a sinking ship. Japan seems to be on board to diversify its holdings of US treasuries even though Japan-US relations are relatively stable due to Washington’s political and economic influence which would make its situation more difficult than China’s. The Business Spectator report quoted chief economist Yoshikiyo Shimamine on Japan’s US treasuries. Only second to China:

In the longer term Japan may also rebalance its portfolio a tad to diversify away from holding US government debt, said Yoshikiyo Shimamine, executive chief economist with Dai-ichi Research Institute in Tokyo. However Tokyo’s political dependence on Washington – for example, in its defense pact – mitigates against a sudden switch, he added.

If Japan follows through with its diversification as China has been doing, then the future outlook for US treasuries is bleak. *“But China is committed to reducing risk by diversifying its reserves, while at the same time shifting investment away from purely financial products to industrial projects”* the report said. It is a matter of time, perhaps in one to two years, that China will unload its current US treasuries. The United States government and its political, financial and military institutions have lost its moral obligations (if it had any to begin with) by what Xinhua’s October 13th article described as *“outright lies”*:

Meanwhile, the U.S. government has gone to all lengths to appear before the world as the one that claims the moral high ground, yet covertly doing things that are as audacious as torturing prisoners of war, slaying civilians in drone attacks, and spying on world leaders.

Under what is known as the Pax-Americana, we fail to see a world where the United States is helping to defuse violence and conflicts, reduce poor and displaced population, and bring about real, lasting peace.

Moreover, instead of honoring its duties as a responsible leading power, a self-serving Washington has abused its superpower status and introduced even more chaos into the world by shifting financial risks overseas, instigating regional tensions amid territorial disputes, and fighting unwarranted wars under the cover of outright lies.

As a result, the world is still crawling its way out of an economic disaster thanks to the voracious Wall Street elites, while bombings and killings have become virtually daily routines in Iraq years after Washington claimed it has liberated its people from tyrannical rule.

Let's see what happens In January as the drama continues to unfold.

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